

NEWS RELEASE

FOR RELEASE _____

Cline, DeVries & Allen, LLP today released an audit report on the City of Cambridge, Iowa.

The City's receipts totaled \$1,643,517 for the year ended June 30, 2011. The receipts included \$95,040 in property tax, \$296,459 from tax increment financing, \$290,679 from charges for service, \$88,249 from operating grants, contributions and restricted interest, \$747,138 from capital grants, contributions and restricted interest, \$93,185 from local option sales tax, \$4,600 from unrestricted investment earnings and \$28,167 from other general receipts.

Disbursements for the year totaled \$1,402,166, and included \$334,151 for business type activities, \$747,134 for capital projects, and \$128,667 for public works.

A copy of the audit report is available for review in the City Clerk's office.

CITY OF CAMBRIDGE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

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City of Cambridge

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott DeYoung	Mayor	Jan 2014
Steve Kovarik	Council Member/Mayor Pro Tem	Jan 2014
Jason Bohning	Council Member	Jan 2012
Michael Macki	Council Member	Jan 2012
Dan Mortensen	Council Member	Jan 2014
David Thom	Council Member	Jan 2014
Deb Thompson	City Clerk	Indefinite
Michael Lewis	Attorney	Indefinite

City of Cambridge

CLINE, DEVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Cambridge, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's financial statements listed in the table of contents. These financial statements are the responsibility of the City of Cambridge's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Cambridge as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2012 on our consideration of the City of Cambridge's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented Management's Discussion and Analysis which introduces the financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

Budgetary comparison information on pages 21 through 23 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cambridge's financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the financial statements taken as a whole.

January 23, 2012
Cline DeVries & Allen, LLP
Ames, Iowa

City of Cambridge

Basic Financial Statements

City of Cambridge

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, and Restrictcd Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 84,121	27,791	-	-
Public works	128,667	800	87,349	-
Health and social services	350	-	-	-
Culture and recreation	50,484	6,627	-	-
Community and economic development	9,219	-	900	-
General government	48,040	-	-	-
Debt service	-	-	-	-
Capital projects	747,134	-	-	747,138
Total governmental activities	1,068,015	35,218	88,249	747,138
Business type activities:				
Sewer	81,462	68,553	-	-
Water	184,327	116,122	-	-
Garbage	68,362	70,786	-	-
Total business type activities	334,151	255,461	-	-
Total	\$ 1,402,166	290,679	88,249	747,138
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Rent				
Sale of fixed assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(56,330)	-	(56,330)
(40,518)	-	(40,518)
(350)	-	(350)
(43,857)	-	(43,857)
(8,319)	-	(8,319)
(48,040)	-	(48,040)
-	-	-
4	-	4
(197,410)	-	(197,410)
-	(12,909)	(12,909)
-	(68,205)	(68,205)
-	2,424	2,424
-	(78,690)	(78,690)
(197,410)	(78,690)	(276,100)
95,040	-	95,040
296,459	-	296,459
93,185	-	93,185
2,721	1,879	4,600
20,032	-	20,032
6,985	-	6,985
1,150	-	1,150
(108,643)	108,643	-
406,929	110,522	517,451
209,519	31,832	241,351
216,845	274,234	491,079
\$ 426,364	306,066	732,430
30,184	-	30,184
-	-	-
7,126	-	7,126
389,054	306,066	695,120
\$ 426,364	306,066	732,430

City of Cambridge

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Receipts:				
Property tax	\$ 95,040	-	-	95,040
Tax increment financing	296,459	-	-	296,459
Other city tax	93,185	-	-	93,185
Licenses and permits	1,365	-	-	1,365
Use of money and property	9,706	-	-	9,706
Intergovernmental	39,827	747,138	75,648	862,613
Charges for service	5,277	-	-	5,277
Special assessments	-	-	-	-
Miscellaneous	21,382	-	-	21,382
Total receipts	562,241	747,138	75,648	1,385,027
Disbursements:				
Operating:				
Public safety	84,121	-	-	84,121
Public works	82,948	-	45,719	128,667
Health and social services	350	-	-	350
Culture and recreation	50,484	-	-	50,484
Community and economic development	9,219	-	-	9,219
General government	48,040	-	-	48,040
Debt service	-	-	-	-
Capital projects	-	747,134	-	747,134
Total disbursements	275,162	747,134	45,719	1,068,015
Excess (deficiency) of receipts over (under) disbursements	287,079	4	29,929	317,012
Other financing sources (uses):				
Sale of bonds	-	-	-	-
Sale of fixed assets	1,150	-	-	1,150
Operating transfers in	-	-	-	-
Operating transfers out	(108,643)	-	-	(108,643)
Total other financing sources (uses)	(107,493)	-	-	(107,493)
Net change in cash balances	179,586	4	29,929	209,519
Cash balances beginning of year	209,464	-	7,381	216,845
Cash balances end of year	\$ 389,050	4	37,310	426,364
Cash Basis Fund Balances				
Nonexpendable				
Restricted for:				
Streets	-	-	30,184	30,184
Debt service	-	-	-	-
Other purposes	-	-	7,126	7,126
Unassigned	389,050	4	-	389,054
Total cash basis fund balances	\$ 389,050	4	37,310	426,364

See notes to financial statements.

City of Cambridge

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise			
	Water	Sewer	Non major	Total
Operating receipts:				
Charges for service	\$ 116,122	\$ 68,553	\$ 70,786	\$ 255,461
Miscellaneous	-	-	-	-
Total operating receipts	116,122	68,553	70,786	255,461
Operating disbursements:				
Business type activities	103,557	56,562	68,362	228,481
Excess (deficiency) of operating receipts over (under) operating disbursements	12,565	11,991	2,424	26,980
Non-operating receipts (disbursements):				
Intergovernmental	-	-	-	-
Interest on investments	1,173	706	-	1,879
SRF loan proceeds	-	-	-	-
Debt service	(80,770)	(24,900)	-	(105,670)
Operating transfers in	83,168	26,225	-	109,393
Operating transfers out	(750)	-	-	(750)
Total non-operating receipts (disbursements)	2,821	2,031	-	4,852
Excess (deficiency) of receipts over (under) disbursements	15,386	14,022	2,424	31,832
Cash balances beginning of year	162,559	96,286	15,389	274,234
Cash balances end of year	\$ 177,945	\$ 110,308	\$ 17,813	\$ 306,066
Cash Basis Fund Balances				
Unrestricted	\$ 177,945	\$ 110,308	\$ 17,813	\$ 306,066

See notes to financial statements.

City of Cambridge

City of Cambridge

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Cambridge is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1882 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Cambridge has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Story County Mayors Board, Story County Emergency Management System Board, Story County Economic Development Group, and the E 911 Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Capital Projects:

The Capital Projects funds are used to account for capital improvements to the City.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system. Also accounted for in this fund are payments of principal and interest on the City's long-term sewer debt.

The Water Fund accounts for the operation and maintenance of the City's water system.

C. Measurement Focus and Basis of Accounting

The City of Cambridge maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the Governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works and business type activities function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Loans Payable/Revenue Bonds

Annual debt service requirements to maturity for the City's loans payable and revenue bonds are as follows:

Year Ending June 30,	General Obligation		Revenue Notes					
	Water Tower/ Improvement		Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	25,000	14,130	28,000	13,080	19,000	6,360	72,000	33,570
2013	26,000	13,380	29,000	12,240	19,000	5,790	74,000	31,410
2014	27,000	12,600	30,000	11,370	20,000	5,220	77,000	29,190
2015	28,000	11,790	31,000	10,470	20,000	4,620	79,000	26,880
2016	29,000	10,950	31,000	9,540	21,000	4,020	81,000	24,510
2017-2021	156,000	41,280	170,000	33,150	113,000	10,380	439,000	84,810
2022-2026	180,000	16,500	117,000	7,080	-	-	297,000	23,580
Total	471,000	120,630	436,000	96,930	212,000	36,390	1,119,000	253,950

The City has pledged future water and sewer revenue receipts, net of specified operating disbursements, to repay the sewer and water revenue bonds. Proceeds from the bonds provided financing for construction improvements. The bonds are payable solely from the water and sewer revenue receipts. The total principal and interest remaining to be paid on the water and sewer revenue bonds is \$532,930 and \$248,390, respectively. For the current year, principal and interest on the water revenue bonds was \$40,890 and total principal and interest on the sewer revenue bonds was \$24,900.

The resolution providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer and water revenue bond sinking accounts within the Enterprise funds for the purpose of making the bond principal and interest payments when due.
- (c) Once the required transfers to the Sinking funds have been made, all of the remaining net revenues shall be put into a Surplus fund.

The City is not in compliance with these provisions at June 30, 2011.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011 were \$7,666, equal to the required contribution for the year.

(5) Compensated Absences

The City does not have a formal policy for the payout of accumulated vacation, compensatory or sick time. They only have one full time employee that receives vacation benefits. Any situation arising involving a payout of that employee's unused time would be approved by the City Council at that time. The amount of accumulated, unused time at June 30, 2011, if any, would be immaterial and is therefore not disclosed.

(6) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Enterprise		
Water	General	\$ 83,168
Sewer	General	25,475
Sewer	Enterprise: Water	750
Total		<u>\$ 109,393</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Leases/Related Parties

The City was involved in two lease agreements as lessor at June 30, 2011. The first one was for a building located at 212 Water Street. The agreement runs from May 1, 2008 to April 30, 2013 with monthly rent payments of \$400 per month. The lessee has the option to purchase the building at the end of the lease for \$85,000 with 50% of their lease payments to be applied to the purchase price. Buyer shall pay the seller 3% interest on the purchase price during the lease. The buyer has not paid any of the interest and only made 10 of the 12 monthly rent payments during fiscal year ended June 30, 2011 for a total of \$4,000. This lease is with the City attorney, a related party.

The other lease is for a building located at 218 Water Street. The original lease ran from November 1, 2005 to May 1, 2008 with monthly payments of \$175/month. The lease was extended to April 30, 2011 with monthly payments of \$250 per month and again extended until September 2011 when the renter purchased the building. The City received all 12 rent payments of \$250 each during the fiscal year.

(9) Construction Commitment

At June 30, 2011 the City had one outstanding construction commitment. The total of the contract was \$517,307 and the remaining commitment left on the contract was \$61,899.

(10) Subsequent Event

In October 2011, the City submitted an application for a CDBG grant for improvements to the water treatment plant. The total project costs will be between \$350,000 and \$500,000, depending on which option is chosen. The grant will be a 50/50 match of grant and local funds. Local funds would be provided thru a State Revolving fund or bank loan. The grant funds will be awarded in March 2012.

Required Supplementary Information

City of Cambridge
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 95,040	-	95,040
Tax increment financing	296,459		296,459
Other city tax	93,185	-	93,185
Licenses and permits	1,365	-	1,365
Use of money and property	9,706	1,879	11,585
Intergovernmental	862,613	-	862,613
Charges for service	5,277	255,461	260,738
Miscellaneous	21,382	-	21,382
Total receipts	<u>1,385,027</u>	<u>257,340</u>	<u>1,642,367</u>
Disbursements:			
Public safety	84,121	-	84,121
Public works	128,667	-	128,667
Health and social services	350	-	350
Culture and recreation	50,484	-	50,484
Community and economic development	9,219	-	9,219
General government	48,040	-	48,040
Debt service	-	-	-
Capital projects	747,134	-	747,134
Business type activities	-	334,151	334,151
Total disbursements	<u>1,068,015</u>	<u>334,151</u>	<u>1,402,166</u>
Excess (deficiency) of receipts over (under) disbursements	317,012	(76,811)	240,201
Other financing sources, net	<u>(107,493)</u>	<u>108,643</u>	<u>1,150</u>
Excess (deficiency) of receipts and other financing sources over disbursements	209,519	31,832	241,351
Balances beginning of year	<u>216,845</u>	<u>274,234</u>	<u>491,079</u>
Balances end of year	<u><u>\$ 426,364</u></u>	<u><u>306,066</u></u>	<u><u>732,430</u></u>

See accompanying independent auditors' report.

Budgeted Amounts		Final to Net Variance
Original	Final	
90,166	90,166	4,874
285,796	285,796	10,663
87,630	95,974	(2,789)
2,115	2,115	(750)
17,500	12,192	(607)
789,935	962,668	(100,055)
258,300	261,367	(629)
11,500	27,455	(6,073)
1,542,942	1,737,733	(95,366)
89,874	90,087	5,966
160,350	125,564	(3,103)
4,350	11,450	11,100
61,991	66,954	16,470
285,796	285,796	276,577
68,498	50,550	2,510
-	-	-
679,000	799,360	52,226
279,300	234,770	(99,381)
1,629,159	1,664,531	262,365
(86,217)	73,202	166,999
-	-	1,150
(86,217)	73,202	168,149
491,080	491,080	(1)
404,863	564,282	168,148

City of Cambridge

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Capital Projects Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$194,791 and budgeted disbursements by \$35,372. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works and business type activities function.

Other Supplementary Information

City of Cambridge

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		
	Road Use Tax	Economic Development	Total
Receipts:			
Property tax	\$ -	-	-
Use of money and property	-	-	-
Intergovernmental	74,748	900	75,648
Miscellaneous	-	-	-
Total receipts	74,748	900	75,648
Disbursements:			
Public works	45,719	-	45,719
Debt Service	-	-	-
Capital projects	-	-	-
Total disbursements	45,719	-	45,719
Excess (deficiency) of receipts over (under) disbursements	29,029	900	29,929
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in cash balances	29,029	900	29,929
Cash balances beginning of year	1,155	6,226	7,381
Cash balances end of year	30,184	7,126	37,310
Cash Basis Fund Balances			
Restricted for:			
Streets	30,184	-	30,184
Debt service	-	-	-
Other purposes	-	7,126	7,126
Unassigned	-	-	-
Total cash basis fund balances	30,184	7,126	37,310

See accompanying independent auditors' report.

City of Cambridge

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2011

	<u>Enterprise</u>
	<u>Garbage</u>
Operating receipts:	
Charges for service	\$ 70,786
Operating disbursements:	
Business type activities	<u>68,362</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>2,424</u>
Other financing sources (uses):	
Operating transfers in	-
Operating transfers out	<u>-</u>
Total other financing sources (uses)	<u>-</u>
Net change in cash balance	2,424
Cash balances beginning of year	<u>15,389</u>
Cash balances end of year	<u><u>\$ 17,813</u></u>
Cash Basis Fund Balances	
Unreserved	<u><u>\$ 17,813</u></u>

See accompanying independent auditors' report.

City of Cambridge
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
<hr/>			
General Obligation:			
Water improvement/tower	Sep. 23, 2006	3.00%	\$ 640,000
Revenue Bonds:			
Sewer	Dec. 19, 2001	3.00%	\$ 374,000
Water	Aug. 25, 2004	3.00%	610,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
496,000	-	25,000	471,000	14,880	-
230,000	-	18,000	212,000	6,900	-
463,000	-	27,000	436,000	13,890	-
693,000	-	45,000	648,000	20,790	-

City of Cambridge
Bond and Note Maturities
Year ended June 30, 2011

Year Ending June 30,	General Obligation		Revenue Bonds					
	Water Tower/ Improvement		Water		Sewer		Total	
	Notes							
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	25,000	14,130	28,000	13,080	19,000	6,360	72,000	33,570
2013	26,000	13,380	29,000	12,240	19,000	5,790	74,000	31,410
2014	27,000	12,600	30,000	11,370	20,000	5,220	77,000	29,190
2015	28,000	11,790	31,000	10,470	20,000	4,620	79,000	26,880
2016	29,000	10,950	31,000	9,540	21,000	4,020	81,000	24,510
2017-2021	156,000	41,280	170,000	33,150	113,000	10,380	439,000	84,810
2022-2026	180,000	16,500	117,000	7,080	-	-	297,000	23,580
Total	471,000	120,630	436,000	96,930	212,000	36,390	1,119,000	253,950

See accompanying independent auditors' report.

City of Cambridge

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Year

	<u>2011</u>
Receipts:	
Property tax	\$ 95,040
Tax increment financing	296,459
Other city tax	93,185
Licenses and permits	1,365
Use of money and property	9,706
Intergovernmental	862,613
Charges for service	5,277
Miscellaneous	<u>21,382</u>
Total	<u><u>\$ 1,385,027</u></u>
Disbursements:	
Operating:	
Public safety	\$ 84,121
Public works	128,667
Health and social services	350
Culture and recreation	50,484
Community and economic development	9,219
General government	48,040
Debt service	-
Capital projects	<u>747,134</u>
Total	<u><u>\$ 1,068,015</u></u>

See accompanying independent auditors' report.

City of Cambridge
 Schedule of Expenditure of Federal Awards
 Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	08-DRI-260	747,138
 U.S. Department of Emergency Management:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division			
Disaster Grants - Public Assistance	97.036	1930-DR-IA	12,601
 Total			<u>\$ 759,739</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Cambridge and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report.

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
In Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Cambridge, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 23, 2012. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cambridge's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Cambridge's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cambridge's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Cambridge's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of significant deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cambridge's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance and other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Cambridge's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cambridge and other parties to whom the City of Cambridge may report including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cambridge during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 23, 2012
Cline DeVries & Allen, LLP
Ames, Iowa

**Independent Auditors' Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct
and Material Effect on Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

To the Honorable Mayor and Members of the City Council:

Compliance

We have audited the City of Cambridge, Iowa's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Cambridge's major federal program for the year ended June 30, 2011. City of Cambridge's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Cambridge's management. Our responsibility is to express an opinion on City of Cambridge's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Cambridge's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Cambridge's compliance with those requirements.

In our opinion, City of Cambridge complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

The management of City of Cambridge is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Cambridge's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of

internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Cambridge's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

City of Cambridge's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Cambridge's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Cambridge and other parties to whom City of Cambridge may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these parties.

January 23, 2012
Cline, DeVries & Allen, LLP
Ames, Iowa

City of Cambridge

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part I: Summary of the Independent Auditors' Results:

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City did not qualify as a low-risk auditee.

City of Cambridge

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We will review our procedures.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-11 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - The City should implement the additional control procedure to reconcile utility billings, collections and delinquencies for each billing period. The Council should review the reconciliations and monitor delinquencies.

Response - These procedures will be implemented as recommended.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Cambridge
Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

None.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 14.228: Community Development Block
Grants/State's Program
Pass-through Agency Number: 08-DRI-260
Federal Award Year: 2009
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-11 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-11.

City of Cambridge
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-11 **Certified Budget** - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - Although the budget was amended, it should have been amended in a sufficient amount to prevent disbursements from exceeding budgeted amounts.

Response - We will do so.

Conclusion - Response accepted.

- IV-B-11 **Questionable Disbursements** - We noted one disbursement that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The disbursement was for flowers for a funeral. According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper purpose and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

- IV-C-11 **Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Cambridge

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- IV-D-11 Business Transactions - One business transaction between the City and City officials or employees was noted. The City leases a building to the City attorney. As of June 30, 2011, 10 of the 12 monthly rent payments of \$400 each have been made. Interest of 3% on the purchase price of \$85,000 is supposed to be paid during the lease term also but as of June 30, 2011, none of this interest has been received by the City.

In accordance with Chapter 362.5 of the Code of Iowa, the transactions with the Attorney appear to represent a conflict of interest since total transactions with the individual exceeded \$2,500 during the fiscal year.

Recommendation - The City should contact legal counsel to determine the disposition of this matter.

Response - We will do so.

Conclusion - Response accepted.

- IV-E-11 Bond Coverage - The City is required to keep records of their surety bond coverage in accordance with Chapters 64.19 to 64.24 of the Code of Iowa. Only an invoice for the premium payment could be located. The actual policy showing who is covered and the amount of coverage could not be located.

Recommendation - The City should ensure they maintain records to keep in compliance with Chapter 64 of the Code of Iowa.

Response - We will do so.

Conclusion - Response accepted.

- IV-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not always published within 15 days of the meetings in accordance with Ch. 372.13 of the Code of Iowa.

Also, Council minutes were not signed in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation - The City should ensure they maintain compliance with Chapters 372 and 380 of the Code of Iowa.

Response - We will do so.

City of Cambridge

Schedule of Findings

Year ended June 30, 2011

Conclusion - Response accepted.

- IV-G-11 Deposits and Investments - The City has not adopted a written investment policy in accordance with Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy as required.

Response - We will do so.

Conclusion - Response accepted.

- IV-H-11 Revenue Bonds - The City is not in compliance with the provisions of the Sewer or Water Revenue bonds. The resolution requires a net revenue test to be met and the City is not meeting the minimum net revenue amount as established in the bond resolution. Also, the bond resolutions require the City to maintain water and sewer sinking and surplus accounts. The City has not established these accounts.

Recommendation - The City should review the sewer and water charges being assessed and the budgeted expenditures to determine if the charges need to be increased. The required sinking and surplus accounts should also be established.

Response - We will do so.

Conclusion - Response accepted.

- IV-I-11 Outstanding Checks - The City has two checks that were issued over twelve months ago and still appear as outstanding on their check list.

Recommendation - The City should void and re-issue the checks.

Response - We will do so.

Conclusion - Response accepted.

- IV-J-11 Tax Increment Financing Debt - The tax increment financing debt certificate was not filed by the December 1st deadline as required. The certificate included bonds which do not qualify for repayment from TIF revenues. The water and sewer revenue bonds were included on the certificate and these revenue bonds can only be paid from the earnings of the enterprise activities. This resulted in the City receiving more TIF revenues than they should have. The TIF funds were transferred from the General Fund to the water and sewer revenue accounts to pay the principal and interest on the revenue bonds.

City of Cambridge

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should contact the proper agency to determine what needs to be done to correct the tax increment debt certificate. All future debt payments on the City's revenue debts should be paid from the Enterprise funds.

Response – We will do so.

Conclusion – Response accepted.

IV-K-11 **General Obligation Debt** – The City paid the principal and interest on general obligation debt from the Enterprise Fund, Water revenue account. The money for the June payment was transferred from the General Fund from TIF revenues to pay this debt. The debt is a general obligation of the City and therefore should be paid from a separate debt service fund as required by Chapter 384 of the Code of Iowa.

Recommendation – The City should comply with Chapter 384 of the Code of Iowa in the future.

Response – We will do so.

Conclusion – Response accepted.

IV-L-11 **Form 1099s** – The City did not properly prepare Form 1099s as required by the Internal Revenue Service.

Recommendation – The City should prepare 1099s as required.

Response – We will do so.

Conclusion – Response accepted.

IV-M-11 **Check Images** – Chapter 554D.114(5) of the Code of Iowa requires that the City receive both the front and back of check images since the bank does not return the actual canceled checks. Currently, the City only receives an image of the front of the checks, not the back.

Recommendation – The City should contact the bank and request images of the back side of checks also.

Response – We will do so.

Conclusion – Response accepted